

file. reciprocity

September 27, 1986

## CONGRESSIONAL RECORD — SENATE

S 13897

be able to keep more of what they make before paying taxes on income.

All of these reforms are financed by slamming the door on tax shelters and by enacting a tough minimum tax to ensure that large, profitable corporations pay their fair share of taxes. Gone will be the days of the tax refund for billion-dollar corporations.

The final tax reform legislation also maintains the deduction for State and local income and property taxes. Earlier this year, the State and local deduction was in jeopardy. I organized a majority of Senate Democrats to oppose any limit on the State and local deduction—a deduction which was first added to the Tax Code 120 years ago by Justin Morrill of Vermont. The State and local deduction saves the average Vermonter more than \$600.

In the future, the tax reform bill will also help farmers. The tough anti-tax shelter provisions will ensure that those who farm the land are doing so for legitimate economic and agricultural purposes and not only to gain tax advantages. The bill promotes dairy farming and discourages tax shelter farming.

This tax reform bill is not perfect. Nobody on the floor of the Senate could claim that it is perfect. There is probably no way on God's green Earth that the Senate, the House, and the White House could concur on a perfect tax bill or that we could ever find any three people in the country to concur on what is a perfect tax reform bill.

During Senate debate on the tax reform bill, I voted to maintain the full deduction for contributions to individual retirement accounts [IRA's]. The Senate rejected that amendment and instead decided to permit IRA deductions only for those without other pension arrangements. The tax reform conference agreement is an improvement, but does not go quite as far as I would like.

Mr. President, all of us are concerned about the effects of this radical legislation on the Nation's economy. It may be that tax changes made in the name of fairness and true tax reform will cause a drag. This is one Senator who is willing to say that Congress is not omniscient. If economic problems arise, I hope pride of authorship will not prevent Congress from acting quickly to prevent them.

As I have stated before, Mr. President, I am concerned about some of the retroactive aspects of the tax bill. Nevertheless, I urge the Senate to adopt this important measure. It is a giant step toward true tax reform.

#### SUBSTANTIAL EQUIVALENCE AT THE UNITED NATIONS

Mr. LEAHY. Mr. President, on Wednesday, the Senate adopted as section 602 of the Intelligence Authorization Act a measure offered as S. 1773 by the distinguished Senator from Maine [Mr. COHEN] and me in October 1985. That measure now goes to con-

ference with the House Intelligence Committee. And I am reasonably confident it will emerge intact.

This provision establishes a national policy of numerical equivalence in the sizes of the United States and Soviet missions to the United Nations in New York. It provides a statutory foundation for actions directed by the President earlier this year to cut some 105 members from the Soviet delegation, and his order expelling 25 Soviet U.N. officials is consistent with the spirit and intent of this second Leahy-Cohen legislation aimed at reducing the Soviet intelligence presence in the United States.

It is because of that, Mr. President, and the reason I address myself to it, that I have been somewhat disturbed to read in the press that the Soviets have been pressing for a rescinding of the expulsion of the 25 Soviets, or for revising the names on the expulsion list, as part of a deal for freeing Nicholas Daniloff. Obviously, the administration would never agree to such a quid pro quo. Those 25 Soviets are known intelligence operatives, and Nicholas Daniloff is an innocent American journalist who was framed by the KGB.

In any event, Mr. President, I want to stress here on the floor of the Senate today that passage of the New Leahy-Cohen legislation—and its ultimate enactment by Congress and signature by the President—adds a new factor into the equation. Even when Nick Daniloff is free, which I hope for him and his family will be very soon, the policy of equivalence in the sizes of the two U.N. missions will remain on the books and will have to be implemented no matter what deals are worked out to get Mr. Daniloff back.

One fact is going to remain: Because of the legislation we have passed, there must be equivalence in those numbers. That means no matter what else, the Soviets are going to have to take an awful lot of their people back home.

So those 25 Soviet spies hidden in their U.N. delegation have to go, and they have to be followed by at least another 40 or 50 more to reach "substantial equivalence," as required by Leahy-Cohen when it is finally signed into law by the President.

Mr. President, this is not a case where somebody can say, "You have given us back Nicholas Daniloff, now you can send back those 25." It does not work that way. Those 25 have to go and worse news is coming: 40 or 50 more are going to have to go, no matter what arrangements are worked out in New York this weekend.

We have had problems with the State Department's attitude in implementing the first piece of Leahy-Cohen legislation, the law enacted last year requiring equivalence in the sizes of the United States and Soviet diplomatic and consular presences in each nation. The aim of that law is that over time State will reduce the

number of Soviets with diplomatic immunity in this country, while increasing somewhat the number of Americans with diplomatic immunity in the Soviet Union. The end result should be rough equivalence.

State has chosen instead to try only to increase Americans and avoid any cutbacks of Soviet diplomats even though the FBI has stated publicly that a third or more of these diplomats are KGB agents. That is not the intent of the law, and this Senator wants to make clear right now his firm intention to return to the issue of implementation of Leahy-Cohen I next year as a priority item of business.

This is going to be implemented. It is on the books. It is not a matter of negotiations; it is not a matter of who saves face. It is the law and this Senator intends to make sure the law is upheld.

Mr. President, I ask unanimous consent to include in the RECORD at the end of my remarks a letter Senator COHEN and I sent Secretary of State Shultz about how accelerated implementation of the Leahy-Cohen diplomatic equivalence amendment might be used as leverage in freeing Nicholas Daniloff.

Let me conclude by reaffirming that the final enactment of the second Leahy-Cohen law aimed at equivalence in the United States and Soviet U.N. missions puts these most recent reductions in a whole new light. There must be no confusion that we can back away from cutting the Soviet U.N. delegation down to rough equivalence or that the Daniloff issue can be used to back the United States away from strong action to get Soviet spying from the U.N. and its Embassy under control.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

U.S. SENATE,  
SELECT COMMITTEE ON INTELLIGENCE,  
Washington, DC, September 9, 1986.  
Hon. GEORGE SHULTZ,  
Secretary of State,  
Department of State,  
Washington, DC.

DEAR MR. SECRETARY: We want first to emphasize our strong support for your effort to secure the immediate release of Nicholas Daniloff from Soviet custody. His arrest on trumped up charges of spying is an outrage and must be urgently resolved before it irretrievably damages U.S.-Soviet relations and disrupts the arms control talks now underway. If it continues to escalate, the Daniloff matter could jeopardize the chances for a Summit which could lead to a breakthrough toward a new arms reductions agreement.

As you know, last year Congress enacted and the President signed into law an amendment requiring the implementation of numerical equivalence between the sizes of the U.S. and Soviet diplomatic and consular presences in each other's country. We believe this requirement could be used to exert pressure on the Soviet Union to secure the release of Mr. Daniloff, and we urge your serious consideration of this approach.

At present, the Executive branch plans to implement the numerical equivalence re-

S 13898

## CONGRESSIONAL RECORD — SENATE

September 27, 1986

quirement over an extended period of time, three years or more. We suggest you consider informing Soviet authorities that the implementation will commence immediately, and the pace and manner of implementation, including the proportion between reductions in Soviet diplomats here and increases of American diplomats in the Soviet Union, will be directly affected by Soviet actions regarding Mr. Daniloff. In other words, how quickly we reach equivalence and how many Soviet diplomats will be reduced will now be determined by how quickly the Soviet Union frees Mr. Daniloff.

Mr. Secretary, as after the KAL 007 tragedy, there will be strong demands in Congress for immediate, and perhaps extreme, measures against the Soviet Union. Such demands may even include disruption of the current talks in preparation for a Summit and for a new strategic arms reductions agreement. The suggestion we offer, if acted upon immediately, could defuse such pressures and prevent more serious damage to U.S.-Soviet relations, while increasing pressure on the Soviet Union to release Mr. Daniloff.

Be assured, Mr. Secretary, that we stand ready to do anything we can to be of assistance.

Sincerely,

WILLIAM S. COHEN,  
PATRICK LEAHY.

Mr. LEAHY. Mr. President, how much time remains to the Senator from Vermont?

The PRESIDING OFFICER. The time remaining is 1 minute and 15 seconds.

Mr. LEAHY. I reserve the remainder of my time and yield the floor.

Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. On whose time?

Mr. LEAHY. On the time of the Senator from Louisiana.

Mr. LONG. Mr. President, I yield 6 minutes to the Senator from Montana [Mr. Baucus].

#### TAX REFORM ACT OF 1986— CONFERENCE REPORT

Mr. BAUCUS. Mr. President, millions of words have been spoken, and will be spoken, about this tax reform legislation.

It is a massive, landmark bill.

It will effect every business in America and every person in America.

And it will effect different people different ways.

Some are winners, some are losers.

But after thinking about it long and hard, I am going to vote for the conference report, for one simple reason.

With all its flaws, it creates a better tax system than the one we have today.

Any bill of this magnitude contains mistakes. I, for one, am particularly disappointed that the conference report deletes provisions important to agriculture and small business.

But the only fair way to consider this bill is to compare the overall tax system it would create with the overall tax system we have now.

#### THE GOALS OF REFORM

Any tax reform proposal has three goals: simplicity, fairness, and growth.

So how does this bill measure up?

The bill does achieve simplicity not for all but most Americans.

It takes at least 6 million people off the tax rolls altogether.

It cuts rates dramatically. Instead of 11 rate brackets, we'll have 2. The top rate will fall from 50 percent to 28 percent.

The standard deduction and personal exemption are increased dramatically.

As a result of these changes, the vast majority of all taxpayers will pay a flat rate of 15 percent.

In addition, the low rates will reduce the incentive to cheat or shelter.

The bill also eliminates some complicated deductions and exemptions, so that the average taxpayer will have an easier time filling out his tax return.

To be sure, the bill increases complexity in certain areas, such as the treatment of passive losses. And the new system will take some getting used to.

But on balance, I believe that the bill does simplify our tax system.

Our second goal was fairness:

The bill makes it more likely that people with the same income will pay the same tax.

And it reduces Federal taxes for most low- and middle-income families.

In Montana, the average taxpayer has an adjusted gross income of \$17,000. A family of four earning that amount will get a 20-percent tax cut. Overall, Montanans' individual Federal taxes will decline by about 10 percent.

In addition, the bill contains a tight minimum tax and other provisions that will finally assure that every profitable corporation and wealthy individual pays its share of taxes.

Unfortunately, the bill also contains several provisions that are manifestly unfair.

For example, the repeal of income averaging. This is a gratuitous and unjustified slap at a group of people who have very volatile incomes—many of whom, like our farmers, are struggling to survive.

Another example is the new rules for Federal retirees. Whatever the merits of these rules, they should not be imposed retroactively.

However, on balance, I believe that the bill does make our tax system more fair than current law.

Our third goal was economic growth. Here, the results are mixed.

The bill lowers taxes on individuals. That will put money in people's pockets. Yes, more in some than in others. But in any case, the tax cut will stimulate more spending.

And by eliminating many corporate preferences and lowering corporate rates, it will even out the corporate tax burden. To earn a profit, businesses will have to concentrate on building better products rather than better tax shelters.

In the long run, that should help make American companies more competitive internationally.

On the other hand, the bill increases the overall corporate tax burden. That, in turn, may increase the cost of capital.

Economists who have analyzed the bill disagree about its ultimate economic effect.

Some argue that the repeal of tax incentives will discourage investment.

However, others point out that the tax incentives we have provided in the past have not stimulated increased U.S. investment. Foreign competitors like Germany and Japan, which have higher corporate taxes than we do, also have higher rates of investment and productivity.

If we are honest about it, we should admit that the bill's ultimate economic effect is uncertain.

But uncertainty does not justify inaction.

We have to make decisions in life, many decisions. And we have to do the best we can with the information that we have.

This won't be the last tax reform bill. As our country evolves, we will be adjusting the Tax Code again to keep pace.

#### CONCLUSION

Looking at the three goals we set out to achieve, this bill falls far short of perfection.

It is a mixed bag.

It is not black or white.

It contains many shades of gray.

Its proponents overstate its benefits.

Its detractors overstate its liabilities.

But, on balance, I believe that this legislation creates a better tax system than we have today.

And it also does something more.

This tax reform bill, and the process by which it is being enacted, represents a triumph of the individual, average American over the larger special interests.

For years, the Washington cynics have said that tax reform could never pass, because too many vested interests have a stake in the existing, loophole-laden system.

This bill proves the cynics wrong. As a result, it will restore public confidence in our tax system and in our Government.

Mr. President, a vote against the conference report is a vote for the current, discredited system.

A vote in favor of the conference report is a vote for reform, with all its risks and imperfections.

I am reminded of what Franklin Roosevelt told an audience in Butte, MT, 52 years ago. "On one side is cynical and unsympathetic acceptance of things as they are. On the other side is our determination and faith in the possibility of change."

I, for one, will vote for the possibility of change.

#### TRIBUTE TO SENATOR LONG

Mr. President, I applaud Chairman PACKWOOD, Senator BRADLEY, and the other Finance Committee members